



# Estate & Gift Tax Interrelated Computations

## Introduction

This publication explains and illustrates both the Trial and Substitution method and the Algebraic method that can be used to compute the Internal Revenue Code (IRC) 2055 charitable deduction or the IRC 2056 marital deduction when an interrelated computation is necessary for Federal estate tax purposes. The publication also explains how to compute the Federal gift tax using the Trial and Substitution method and the Algebraic method when a net gift is involved.

For estate tax purposes, an interrelated computation is required if both (1) a deduction is allowed for property passing to a qualified charity (a charitable deduction) and/or to the surviving spouse (a marital deduction), and (2) the property passing to the qualified charity or to the surviving spouse is burdened with payment of Federal estate tax, Federal generation-skipping transfer tax, penalties, state transfer taxes, or certain allowable administrative expenses.

For gift tax purposes, an interrelated computation is required if the person receiving the gift agrees to pay the gift tax on the gifted property. Because the donee pays the gift tax, the amount the donee receives is reduced by the payment of the gift tax and because the payment of the tax reduces the gift, the tax due on the gift is also reduced. This is called a “net gift.”

Part I has the tax tables, Part II explains the computation methods, Part III includes examples for computing the estate tax, and Part IV includes examples for computing the gift tax.

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## Interrelated Computations

The explanations and examples in this publication reflect the interpretation by the Internal Revenue Service (IRS) of:

- Tax laws enacted by Congress,
- Treasury regulations, and
- Court decisions.

However, the information given does not cover every situation and is not intended to replace the law or change its meaning.

This publication covers some subjects on which a court may have made a decision more favorable to taxpayers than the interpretation by the IRS. Until these differing interpretations are resolved by higher court decisions or in some other way, this publication will continue to present the interpretations by the IRS.

### Part I - Tables

**Table A - Unified Rate Schedule:** Table A shows the Unified Rate Schedule used to calculate both the estate tax and the gift tax for transfers after 2012.

**NOTE:** This table is subject to change. Please consult the instructions for the Form 706 and Form 709 for the correct rates.

**Table A  
Unified Rate Schedule**

Column A Taxable amount over	Column B Taxable amount not over	Column C Taxable amount in Column A	Column D Rate of tax on excess over amount in Column A	Column E Subtractive Term for Alternate Method
\$0	\$10,000	\$0	18%	\$0
10,000	20,000	1,800	20%	200
20,000	40,000	3,800	22%	600
40,000	60,000	8,200	24%	1,400
60,000	80,000	13,000	26%	2,600
80,000	100,000	18,200	28%	4,200
100,000	150,000	23,800	30%	6,200
150,000	250,000	38,800	32%	9,200
250,000	500,000	70,800	34%	14,200
500,000	750,000	155,800	37%	29,200
750,000	1000,000	248,300	39%	44,200
1,00,000	---	345,800	40%	54,200

**Table B – Basic Exclusion Amount and Applicable Credit Amount:** Table B shows the basic exclusion amount and the applicable credit amount, formerly known as the unified credit, which is allowed against estate and gift taxes for transfers after December 31, 2012, and before January 1, 2023. The amount of the credit depends on the year in which the transfer is made. The credit is reduced by 20% of the specific (lifetime) exemption allowed for any gifts made by the donor after September 8, 1976, and before January 1, 1977. In addition, the credit for gift tax purposes is reduced by any credit amount that was allowable in a prior period. The credit amount is limited to the amount of the gross estate tax or gross gift tax liability.

<b>Table B</b>		
<b>Basic Exclusion Amount and Applicable Credit Amount</b>		
<b>Year</b>	<b>Basic</b>	<b>Application</b>
2013	\$5,250,000	\$2,045,800
2014	5,340,000	2,081,800
2015	5,430,000	2,117,800
2016	5,450,000	2,117,800
2017	5,490,000	2,125,800
2018	11,180,000	2,141,800
2019	11,400,000	4,417,800
2020	11,580,000	4,577,800
2021	11,700,000	4,625,800
2022	12,060,000	4,769,800

## **Part II - Computation Methods**

### **Trial and Substitution Method**

The Trial and Substitution method requires a series of computations to reach the correct result. For the Federal estate tax computations, the first trial is computed based on reducing the deductible interest by only those taxes, penalties, and certain allowable administrative expenses that are constant; in other words, all taxes, penalties, and certain allowable expenses that are variable are assumed to be \$0.00. The second trial computation is made based on the taxes, penalties, and certain allowable administrative expenses figured in the first trial computation. The third trial computation is based on the taxes, penalties, and certain allowable administrative expenses figured in the second trial computation, and so on. The computations continue until two successive computations are equal. When two successive computations produce the same result, the last computation is the correct computation of the estate tax.

As stated above, for gift tax purposes, an interrelated computation is required if the person receiving the gift agrees to pay the gift tax on the gifted property resulting in a "net gift." Like the estate tax computation, the Trial and Substitution method for the gift tax continues until the amount of the gift tax paid by the donee equals the amount of the gift tax due.

Under the Trial and Substitution method, there are two options to use when computing either the estate tax or the gift tax - the conventional option or the alternate option.

**The conventional option is illustrated below:**

**Conventional Option**

	Taxable Interests .....	\$100,000,000.00
<b>Step 1</b>	Minus: Bracket from Table A, Column A .....	<u>1,000,000.00</u>
	Excess .....	\$99,000,000.00
<b>Step 2</b>	Times: Marginal Rate from Table A, Column D .....	x <u>0.40</u>
	Product .....	\$39,600,000.00
<b>Step 3</b>	Plus: Tax on bracket from Table A, Column C .....	<u>345,800.00</u>
	Tax on taxable interest .....	<u>\$39,945,800.00</u>

Step 1 – For taxable interests greater than \$1,000,000.00, subtract the amount shown in Table A, Column A from the taxable interests, i.e., \$100,000,000.00 – 1,000,000.00 = \$99,000,000.00,

Step 2 – Multiply the excess from Step 1 by the tax rate shown in Table A, Column D, i.e., \$99,000,000.00 x .40 = \$39,600,000.00, and

Step 3 – Add the amount from Column C that corresponds to the taxable amount in Column A to the amount from Step 2, i.e., \$39,600,000.00 + 345,800.00 = \$39,945,800.00.

The Unified Rate Schedule, Table A shown above, has five columns instead of the usual four because the additional column, Column E, allows for the alternate option. The first four columns in Table A, Columns A, B, C, and D are used to figure the tax using the conventional option and columns A, B, D, and E are used to compute the tax using the alternate option. As with the conventional option, the alternate option also requires a series of computations to reach the correct answer. However, the alternate option has two advantages over the conventional option. First, it requires fewer steps to figure the tax, and second, it eliminates certain negative numbers when figuring the trial estate tax in interrelated computations.

**The alternate option is illustrated below:**

**Alternate Option**

	Taxable Interests .....	\$100,000,000.00
<b>Step 1</b>	Times: Marginal Rate from Table A, Column D .....	x <u>0.40</u>
	Product .....	\$40,000,000.00
<b>Step 2</b>	Minus: Subtractive terms from Table A, Column E .....	<u>54,200.00</u>
	Product .....	<u>\$39,945,800.00</u>

Step 1 – Multiply the taxable interests by the marginal tax rate from Column D that corresponds to the taxable interest amount from Column A, \$100,000,000.00 x .40 = \$40,000,000.00, and

Step 2 – Subtract the amount shown in Column E corresponding to the Column A amount from Step 1, \$40,000,000.00 – 54,200.00 = \$39,945,800.00.

The Part III examples include illustrations using the Trial and Substitution method to compute the estate tax. Part IV shows examples of the Trial and Substitution method for computing net gifts.

## Algebraic Method

The Algebraic method uses a linear algebraic equation to determine the deduction and the tax. The linear equation is a simple equation that takes the general form of  $ax=b$  or stated another way,  $(a * x) = b$ , where “a” and “b” are determined values and “x” is an undetermined value. The linear equation may be used to solve most interrelated estate tax computation problems that do not involve tax apportionment, second limitation gift tax credit, or second limitation foreign death tax credit. The Algebraic method is a shorter method for figuring the taxes. However, as more elements of the computation become interrelated, this method becomes more difficult to use. In the Algebraic method, the deductible interest is figured based on an unknown amount of tax. The tax is then figured based on a variable deduction and algebra is used to solve for the unknown value. Round the coefficients to a commensurate number of places comparable to the amount of tax owed. Additionally, only the final tax figures are rounded to two digits in both the estate tax calculations and the gift tax calculations.

Both the Part III and Part IV examples include illustrations using the Algebraic method.

**Note:** If the Algebraic method proof does not provide the same answer as the original computation, there are two potential reasons:

- 1) An incorrect tax bracket for trial taxable interests was used, or
- 2) A mathematical error was made.

To resolve the error, first check to make sure you used the correct bracket. Compare the tax bracket used in the trial computation with the tax bracket used in the proof. If these two figures are different, an incorrect bracket was selected. You must select the bracket based on an estimate of the taxable interests after taxes and recompute the steps in the problem. Second, if the correct bracket was selected, check the entire computation for mathematical and rounding errors.

## Part III – Federal Estate Tax

As indicated above, a deduction may be allowable for the value of property passing to a qualified charity under IRC 2055 or to a surviving spouse under IRC 2056. An interrelated computation is necessary to determine the charitable or marital deduction for Federal estate tax purposes if the property passing to the qualified charity or to the surviving spouse is burdened with payment of Federal estate tax, Federal generation-skipping transfer tax, penalties, state transfer taxes, or certain allowable administrative expenses.

There is no estate tax liability if the entire estate passes to a qualified charity or to the surviving spouse and the property qualifies for the marital deduction.

The examples in Part III showing the IRC 2055 charitable deduction computations also apply if an interrelated computation is necessary for determining a marital deduction under IRC 2056.

The first step in all interrelated computations is to determine the distribution of the decedent's estate. The second step is to determine what property bears the payment of tax, penalties, or certain allowable administrative expenses. Once these two steps are complete, the interrelated computation may be computed.

### Estate Tax Example 1 - Trial and Substitution Method

- **State estate tax is constant.**
- **Taxable interests include adjusted taxable gifts.**

An individual died in 2020 leaving a gross estate valued at \$100,000,000.00. The debts and expenses of the estate were \$1,000,000.00 and noncharitable specific bequests totaled \$5,000,000.00. Thirty percent (30%) of the estate residue passed to a charity. The state death tax deduction is constant at \$10,000,000.00 and the will directed that all estate taxes were to be paid as a general charge against the estate. The decedent made taxable gifts in 2015 equal to \$20,000,000.00 and the gift tax payable equals \$5,828,000.00. This example uses the conventional option to determine the estate tax.

**Trial 1****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>0.00</u>	<u>16,000,000.00</u>	
Net residue		\$84,000,000.00	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$25,200,000.00</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	25,200,000.00		
State death tax deduction	<u>10,000,000.00</u>	<u>36,200,000.00</u>	
Trial taxable estate		\$63,800,000.00	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$83,800,000.00	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$82,800,000.00	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$33,120,000.00	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$33,465,800.00	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$27,637,800.00	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$23,060,000.00</u>	

**Trial 2****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>23,060,000.00</u>	<u>39,000,000.00</u>	
Net residue		\$60,940,000.00	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$16,282,000.00</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	18,282,000.00		
State death tax deduction	<u>10,000,000.00</u>	<u>29,282,000.00</u>	
Trial taxable estate		\$70,718,000.00	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$90,718,000.00	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$89,718,000.00	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$35,887,200.00	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,233,000.00	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,405,800.00	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$25,827,200.00</u>	

**Trial 3****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>25,827,200.00</u>	<u>41,827,200.00</u>	
Net residue		\$58,172,800.00	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,451,840.00</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,451,840.00		
State death tax deduction	<u>10,000,000.00</u>	<u>28,451,840.00</u>	
Trial taxable estate		\$71,548,160.00	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,548,160.00	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,548,160.00	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,219,264.00	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,565,064.00	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,737,064.00	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,159,264.00</u>	

**Trial 4****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,159,264.00</u>	<u>42,159,264.00</u>	
Net residue		\$57,840,736.00	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,352,220.80</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,352,220.80		
State death tax deduction	<u>10,000,000.00</u>	<u>28,352,220.80</u>	
Trial taxable estate		\$71,647,779.20	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,647,779.20	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,647,779.20	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,259,111.68	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,604,911.68	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,776,911.68	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,199,111.68</u>	

**Trial 5****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,199,111.68</u>	<u>42,199,111.68</u>	
Net residue		\$57,800,888.32	
Times: Percentage to charity		x <u>0.30</u>	
Trial charitable deduction		<u>\$17,340,266.50</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,340,266.50		
State death tax deduction	<u>10,000,000.00</u>	<u>28,340,266.50</u>	
Trial taxable estate		\$71,659,733.50	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,659,733.50	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,659,733.50	
Times: Marginal rate from Table A, Column D		x <u>0.40</u>	
Product		\$36,263,893.40	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,609,693.40	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,781,693.40	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,203,893.40</u>	

**Trial 6****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,203,893.40</u>	<u>42,203,893.40</u>	
Net residue		\$57,796,106.60	
Times: Percentage to charity		x <u>0.30</u>	
Trial charitable deduction		<u>\$17,338,831.98</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,338,831.98		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,831.98</u>	
Trial taxable estate		\$71,661,168.02	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,168.02	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,168.02	
Times: Marginal rate from Table A, Column D		x <u>0.40</u>	
Product		\$36,264,467.21	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,267.21	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,776,911.68	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,467.21</u>	

**Trial 7****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,204,467.21</u>	<u>42,204,467.21</u>	
Net residue		\$57,795,532.79	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,338,659.84</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,338,659.84		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,659.84</u>	
Trial taxable estate		\$71,661,340.16	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,340.16	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,340.16	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,264,536.06	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,336.06	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,782,336.06	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,536.06</u>	

**Trial 8****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,204,536.06</u>	<u>42,204,536.06</u>	
Net residue		\$57,795,463.94	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,338,639.18</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,338,639.18		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,639.18</u>	
Trial taxable estate		\$71,661,360.82	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,360.82	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,360.82	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,264,544.33	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,344.33	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,782,344.33	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,544.33</u>	

**Trial 9****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,204,544.33</u>	<u>42,204,544.33</u>	
Net residue		\$57,795,455.67	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,338,636.70</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	17,338,636.70		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,636.70</u>	
Trial taxable estate		\$71,661,363.30	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,363.30	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,363.30	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,264,545.32	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,345.32	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,782,345.32	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,545.32</u>	

**Trial 10****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,204,545.32</u>	<u>42,204,545.32</u>	
Net residue		\$57,795,454.68	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,338,636.40</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	\$17,338,636.40		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,636.40</u>	
Trial taxable estate		\$71,661,363.60	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,363.60	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,363.60	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,264,545.44	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,345.44	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,782,345.44	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,545.44</u>	

**Trial 11****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,204,545.44</u>	<u>42,204,545.44</u>	
Net residue		\$57,795,454.56	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,338,636.37</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	\$17,338,636.37		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,636.37</u>	
Trial taxable estate		\$71,661,363.63	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,363.63	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,363.63	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,264,545.45	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,345.45	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,782,345.45	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,545.45</u>	

**Trial 12****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Bequests	5,000,000.00		
State death tax (Constant)	10,000,000.00		
Trial Federal estate tax	<u>26,204,545.45</u>	<u>42,204,545.45</u>	
Net residue		\$57,795,454.55	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$17,338,636.36</u>	

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$1,000,000.00		
Trial charitable deduction	\$17,338,636.36		
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,636.36</u>	
Trial taxable estate		\$71,661,363.64	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$91,661,363.64	
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>	
Remainder		\$90,661,363.64	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$36,264,545.45	
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>	
Tax on trial taxable interests		\$36,610,345.45	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$30,782,345.45	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$26,204,545.45</u>	

## Estate Tax Example 2 - Algebraic Method

- State estate tax is constant.
- Taxable interests include adjusted taxable gifts.

The facts are the same as in Estate Tax Example 1, but the estate tax is computed using the Algebraic method. In the example below, the letter " F " stands for the Federal estate tax, 0.30 equals the percentage passing to the qualified charity, 0.40 equals the highest tax rate, and 0.12 equals the product that is the result of multiplying the charitable percentage, 0.30, times the highest tax rate, 0.40, or  $.30 \times .40 = 0.12$ .

### 1) Trial distribution of estate

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$1,000,000.00	
Bequests	5,000,000.00	
State death tax (Constant)	10,000,000.00	
Trial Federal estate tax	<u>                    F</u>	<u>16,000,000.00 + F</u>
Net residue		\$84,000,000.00 - F
Times: Percentage to charity		x 0.30
Trial charitable deduction		<u>\$25,200,000.00 - 0.30F</u>

### 2) Computation of trial Federal estate tax

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$1,000,000.00	
Trial charitable deduction	25,200,000.00 - 0.30F	
State death tax deduction	<u>10,000,000.00</u>	<u>36,200,000.00 - 0.30F</u>
Trial taxable estate		\$63,800,000.00 + 0.30F
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$83,800,000.00 + 0.30F
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>
Remainder		\$82,800,000.00 + 0.30F
Times: Marginal rate from Table A, Column D		x 0.40
Product		\$33,120,000.00 + 0.12F
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>
Tax on trial taxable interests		\$33,465,800.00 + 0.12F
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Gross estate tax		\$27,637,800.00 + 0.12F
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Net Federal estate tax in terms of F		<u>\$23,060,000.00 + 0.12F</u>

### 3) Solve for F

This expression for the Federal estate tax in terms of F may be expressed as an algebraic equation:

$$F = \$23,060,000.00 + 0.12F$$

Solve this equation for F to determine the Federal estate tax.

a) Transpose to simplify:

$$F - 0.12F = \$23,060,000.00$$

b) Consolidate the F terms:

$$\underline{0.88F = \$23,060,000.00}$$

c) Divide both sides of the equation by the decimal coefficient (0.88):

$$\frac{0.88F}{0.88} = \frac{\underline{23,060,000.00}}{0.88}$$

d) This yields the Federal tax:

$$F = \underline{\underline{\$26,204,545.45}}$$

**Proof****1) Distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$1,000,000.00	
Bequests	5,000,000.00	
State death tax (Constant)	10,000,000.00	
Federal estate tax (F)	<u>26,204,545.45</u>	<u>42,204,545.45</u>
Net residue		\$57,795,454.55
Times: Percentage to charity		x 0.30
Charitable deduction		<u>\$17,338,636.36</u>

**2) Computation of Federal estate tax**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$1,000,000.00	
Charitable deduction	17,338,636.36	
State death tax deduction	<u>10,000,000.00</u>	<u>28,338,636.36</u>
Taxable estate		\$71,661,363.64
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Taxable interests		\$91,661,363.64
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>
Remainder		\$90,661,363.64
Times: Marginal rate from Table A, Column D		x 0.40
Product		\$36,264,545.45
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>
Tax on taxable interests		\$36,610,345.45
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Gross estate tax		\$30,782,345.45
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Net estate tax		<u>\$26,204,545.45</u>

## Estate Tax Example 3 - Trial and Substitution Method

- District of Columbia estate tax is equal to the estate tax imposed for deaths in 2020.
- Taxable interests include adjusted taxable gifts.

In Example 3, an individual died in 2020 leaving a gross estate valued at \$100,000,000.00. There were no debts or expenses and no specific bequests. Thirty percent (30%) of the estate passed to charity. The state death tax deduction (SDTD) is based on the District of Columbia estate tax for deaths in 2020 and the will directed that all estate taxes were to be paid as a general charge against the estate. The decedent made taxable gifts in 2015 equal to \$20,000,000.00 and the gift tax payable equals \$5,828,000.00. This example uses the alternate option to determine the estate tax.

<b>Trial 1</b>				<b>Trial 2</b>			
<b>1) Trial distribution of estate</b>				<b>1) Trial distribution of estate</b>			
Total gross estate		\$100,000,000.00		Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$0.00			Minus: Debts and expenses	\$0.00		
Bequests	0.00			Bequests	0.00		
State death tax (Formula)	0.00			State death tax (Formula)	10,188,512.00		
Trial Federal estate tax	<u>0.00</u>		<u>0.00</u>	Trial Federal estate tax	<u>21,464,595.20</u>		<u>31,653,107.20</u>
Net residue		\$100,000,000.00		Net residue		\$68,346,892.80	
Times: Percentage to charity		x 0.30		Times: Percentage to charity		x 0.30	
Trial charitable deduction		<u>\$30,000,000.00</u>		Trial charitable deduction		<u>\$20,504,067.84</u>	
<b>2) Computation of trial Federal estate tax</b>				<b>2) Computation of trial Federal estate tax</b>			
Total gross estate		\$100,000,000.00		Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$0.00			Minus: Debts and expenses	\$0.00		
Trial charitable deduction	30,000,000.00			Trial charitable deduction	20,504,067.84		
Trial SDTD	<u>10,188,512.00</u>		<u>40,188,512.00</u>	Trial SDTD	<u>11,707,861.15</u>		<u>32,211,928.99</u>
Trial taxable estate		\$59,811,488.00		Trial taxable estate		\$67,788,071.01	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>		Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$79,811,488.00		Trial taxable interests		\$87,788,071.01	
Times: Marginal rate from Table A, Column D		x 0.40		Times: Marginal rate from Table A, Column D		x 0.40	
Product		\$31,924,595.20		Product		\$35,115,228.41	
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>		Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>	
Tax on trial taxable interests		\$31,870,395.20		Tax on trial taxable interests		\$35,061,028.41	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>		Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$26,042,395.20		Trial gross estate tax		\$29,233,028.41	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>		Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$21,464,595.20</u>		Trial net estate tax		<u>\$24,655,228.41</u>	

**Trial 3****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,707,861.15	
Trial Federal estate tax	<u>24,655,228.41</u>	<u>36,363,089.55</u>
Net residue		\$63,636,910.45
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$19,091,073.13</u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	19,091,073.13	
Trial SDTD	<u>11,933,940.30</u>	<u>31,025,013.43</u>
Trial taxable estate		\$68,974,986.57
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$88,974,986.57
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,589,994.63
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,535,794.63
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,707,794.63
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,129,994.63</u>

**Trial 4****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,933,940.30	
Trial Federal estate tax	<u>25,129,994.63</u>	<u>37,063,934.93</u>
Net residue		\$62,936,065.07
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$18,880,819.52</u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	18,880,819.52	
Trial SDTD	<u>11,967,580.88</u>	<u>30,848,400.40</u>
Trial taxable estate		\$69,151,599.60
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,151,599.60
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,660,639.84
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,606,439.84
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,778,439.84
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,200,639.84</u>

**Trial 5****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,967,580.88	
Trial Federal estate tax	<u>25,200,639.84</u>	<u>37,168,220.72</u>
Net residue		\$62,831,779.28
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$18,849,533.78</u>

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Trial charitable deduction	18,849,533.78	
Trial SDTD	<u>11,972,586.59</u>	30,822,120.38
Trial taxable estate		\$69,177,879.62
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,177,879.62
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,671,151.85
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,616,951.85
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax Minus: Allowable applicable credit amount		\$29,788,951.85
		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,211,151.85</u>

**Trial 6****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,972,586.59	
Trial Federal estate tax	<u>25,211,151.85</u>	<u>37,183,738.44</u>
Net residue		\$62,816,261.56
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$18,844,878.47</u>

**2) Computation of trial Federal estate tax**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Trial charitable deduction	18,844,878.47	
Trial SDTD	<u>11,973,331.45</u>	30,818,209.91
Trial taxable estate		\$69,181,790.09
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,181,790.09
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,672,716.04
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,618,516.04
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax Minus: Allowable applicable credit amount		\$29,790,516.04
		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,212,716.04</u>

**Trial 7****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$0.00		
Bequests	0.00		
State death tax (Formula)	11,973,331.45		
Trial Federal estate tax	<u>25,212,716.04</u>	<u>37,186,047.48</u>	
Net residue		\$62,813,952.52	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$18,844,185.76</u>	

**2) Computation of trial Federal estate tax**

Total gross estate			
Minus: Debts and expenses	\$0.00	\$100,000,000.00	
Trial charitable deduction	18,844,185.76		
Trial SDTD	<u>11,973,442.28</u>	<u>30,817,628.03</u>	
Trial taxable estate		\$69,182,371.97	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$89,182,371.97	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$35,672,948.79	
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>	
Tax on trial taxable interests		\$35,535,794.63	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$29,790,748.79	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$25,212,948.79</u>	

**Trial 8****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00	
Minus: Debts and expenses	\$0.00		
Bequests	0.00		
State death tax (Formula)	11,973,442.28		
Trial Federal estate tax	<u>25,212,948.79</u>	<u>37,186,391.07</u>	
Net residue		\$62,813,608.93	
Times: Percentage to charity		<u>x 0.30</u>	
Trial charitable deduction		<u>\$18,844,082.68</u>	

**2) Computation of trial Federal estate tax**

Total gross estate			
Minus: Debts and expenses	\$0.00	\$100,000,000.00	
Trial charitable deduction	18,844,082.68		
Trial SDTD	<u>11,973,458.77</u>	<u>30,817,541.45</u>	
Trial taxable estate		\$69,182,458.55	
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>	
Trial taxable interests		\$89,182,458.55	
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>	
Product		\$35,672,983.42	
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>	
Tax on trial taxable interests		\$35,618,783.42	
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>	
Trial gross estate tax		\$29,790,783.42	
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>	
Trial net estate tax		<u>\$25,212,983.42</u>	

**Trial 9****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,973,458.77	
Trial Federal estate tax	<u>25,212,983.42</u>	<u>37,186,442.19</u>
Net residue		\$62,813,557.81
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u><u>\$18,844,067.34</u></u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	18,844,067.34	
Trial SDTD	<u>11,973,461.23</u>	<u>30,817,528.57</u>
Trial taxable estate		\$69,182,471.43
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,182,471.43
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,672,988.57
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,618,788.57
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,790,788.57
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u><u>\$25,212,988.57</u></u>

**Trial 10****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,973,461.23	
Trial Federal estate tax	<u>25,212,988.57</u>	<u>37,186,449.80</u>
Net residue		\$62,813,550.20
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u><u>\$18,844,065.06</u></u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	18,844,065.06	
Trial SDTD	<u>11,973,461.59</u>	<u>30,817,526.65</u>
Trial taxable estate		\$69,182,473.35
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,182,473.35
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,672,989.34
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,618,789.34
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,790,789.34
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u><u>\$25,212,989.34</u></u>

**Trial 11****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,973,461.59	
Trial Federal estate tax	<u>25,212,989.34</u>	<u>37,186,450.93</u>
Net residue		\$62,813,549.07
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$18,844,064.72</u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	18,844,064.72	
Trial SDTD	<u>11,973,461.64</u>	<u>30,817,526.37</u>
Trial taxable estate		\$69,182,473.63
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,182,473.63
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,672,989.45
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,618,789.45
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,790,789.45
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,212,989.45</u>

**Trial 12****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,973,461.64	
Trial Federal estate tax	<u>25,212,989.45</u>	<u>37,186,451.10</u>
Net residue		\$62,813,548.90
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$18,844,064.67</u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	18,844,064.67	
Trial SDTD	<u>11,973,461.65</u>	<u>30,817,526.65</u>
Trial taxable estate		\$69,182,473.35
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,182,473.35
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,672,989.47
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,618,789.47
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,790,789.47
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,212,989.47</u>

**Trial 13****1) Trial distribution of estate**

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,973,461.65	
Trial Federal estate tax	<u>25,212,989.47</u>	<u>37,186,451.12</u>
Net residue		\$62,813,548.88
Times: Percentage to charity		<u>x 0.30</u>
Trial charitable deduction		<u>\$18,844,064.66</u>

**2) Computation of trial Federal estate tax**

Total gross estate		
Minus: Debts and expenses	\$0.00	\$100,000,000.00
Trial charitable deduction	18,844,064.66	
Trial SDTD	<u>11,973,461.65</u>	<u>30,817,526.32</u>
Trial taxable estate		\$69,182,473.68
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Trial taxable interests		\$89,182,473.68
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,672,989.47
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Tax on trial taxable interests		\$35,618,789.47
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Trial gross estate tax		\$29,790,789.47
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Trial net estate tax		<u>\$25,212,989.47</u>

## Estate Tax Example 4 – Algebraic Method

- District of Columbia estate tax is equal to the estate tax imposed for deaths in 2020.
- Taxable interests include adjusted taxable gifts.

The facts are the same as in Estate Tax Example 3 and the estate tax is computed using the Algebraic method. In the example below, the letter “ F ” stands for the Federal estate tax, the letter “ S ” stands for the state transfer tax, and 0.30 equals the percentage passing to the qualified charity, 0.16 equals the highest state estate tax rate, and 0.048 equals the product that is the result of multiplying the charitable percentage, 0.30, times the highest tax rate, 0.16, or  $0.30 \times 0.16 = 0.048$ .

### 1) Distribution of estate

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	S	
Federal estate tax	<u>F</u>	<u>0.00 + (F + S)</u>
Net residue		\$100,000,000.00 - (F + S)
Times: Percentage to charity		<u>x 0.30</u>
Charitable deduction in terms of F and S		<u>\$30,000,000.00 - 0.30(F + S)</u>

### 2) Computation of state death tax

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Charitable deduction	$30,000,000.00 - 0.30(F + S)$	
State death tax deduction	<u>0.00</u>	<u><math>30,000,000.00 - 0.30(F + S)</math></u>
Taxable estate for state		$\$70,000,000.00 + 0.30(F + S)$
Plus: Adjusted taxable gifts (if applicable)		<u>0.00</u>
State taxable interests		$\$70,000,000.00 + 0.30(F + S)$
Minus: Gross amount below marginal tax rate		<u>10,000,000.00</u>
Amount subject to marginal state tax rate		$\$60,000,000.00 + 0.30(F + S)$
Times: Marginal state tax rate		<u>x 0.16</u>
Product		\$9,600,000.00
Plus: Addition to marginal tax		<u>588,512.00</u>
State death tax in terms of F and S		<u><math>\\$10,188,512.00 + 0.048(F + S)</math></u>

### 3) Solve for S

- |   |   |
|---|---|
|   | $S = \$10,188,512.00 + 0.048(F + S)$                            |
| a) Eliminate brackets by multiplication                                 | $S = \$10,188,512.00 + 0.048F + 0.048S$                         |
| b) Transpose to simplify equation                                       | $S - 0.048S = \$10,188,512.00 + 0.048F$                         |
| c) Consolidate the S term:  | $0.952S = \$10,188,512.00 + 0.048F$                             |
| d) Divide both side of the equation by the decimal coefficient (0.952): | $\frac{0.952S}{0.952} = \frac{\$10,188,512.00 + 0.048F}{0.952}$ |
| e) This yields a value for the state death tax expressed in terms of F: | $S = \$10,702,218.49 + 0.050420168F$                            |

**4) Solve for charitable deduction**

- a) Charitable deduction =  $\$30,000,000.00 - 0.30(F + S)$
- b) Substitute the expression for the estate death tax: Charitable deduction =  $\$30,000,000.00 - 0.30 (F + (\$10,702,218.49 + 0.050420168F))$
- c) Consolidate F terms Charitable deduction =  $\$30,000,000.00 - 0.30 (1.050420168F + \$10,702,218.49)$
- d) Eliminate brackets by multiplication Charitable deduction =  $\$30,000,000.00 - 0.315126050F - \$3,210,665.55$
- e) Consolidate the equation: Charitable deduction =  $\$26,789,334.45 - 0.315126050F$

**5) Computation of Federal estate tax**

Total gross estate	\$100,000,000.00
Minus: Debts and expenses	\$0.00
Charitable deduction	$26,789,334.45 - 0.315126050F$
State death tax deduction	<u><math>10,702,218.49 + 0.050420168F</math></u> $37,491,552.94 - 0.264705882F$
Taxable estate	$\$62,508,447.06 + 0.264705882F$
Plus: Adjusted taxable gifts	<u>20,000,000.00</u>
Taxable interests	$\$82,508,447.06 + 0.264705882F$
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	$\$33,003,378.82 + 0.105882353F$
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Tax on taxable interests	$\$32,949,178.82 + 0.105882353F$
Minus: Total gift tax paid or payable	<u>5,828,000.00</u>
Gross estate tax	$\$27,121,178.82 + 0.105882353F$
Minus: Allowable applicable credit amount	<u>4,577,800.00</u>
Net Federal estate tax in terms of F	<u><u><math>\\$22,543,378.82 + 0.105882353F</math></u></u>

**6) Solve for F**

- $F = \$22,543,378.82 + 0.105882353F$
- a) Transpose to simplify the equation:  $F - 0.105882353F = \$22,543,378.82$
- b) Consolidate the F terms:  $0.894117647F = \$22,543,378.82$
- c) Divide both sides of the equation by the decimal coefficient (0.894117647):  $S - 0.048S = \$10,188,512.00 + 0.048F$
- $0.894117647F = \$22,543,378.82$
- $0.894117647 \quad 0.894117647$
- d) This yields the Federal tax:  $F = \$25,212,989.47$

**7) Determination of state death tax**

- $S = \$10,702,218.49 + 0.050420168F$
- $S = \$10,702,218.49 + 0.050420168(\$25,212,989.47)$
- $S = \$10,702,218.49 + \$1,271,243.16$
- $S = \$11,973,461.65$

## Proof

### 1) Distribution of estate

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Bequests	0.00	
State death tax (Formula)	11,973,461.65	
Federal estate tax	<u>25,212,989.47</u>	<u>37,186,451.12</u>
Net residue		\$62,813,548.88
Times: Percentage to charity		<u>x 0.30</u>
Charitable deduction		<u>\$18,844,064.66</u>

### 2) Computation of Federal estate tax

Total gross estate		\$100,000,000.00
Minus: Debts and expenses	\$0.00	
Charitable deduction	18,844,064.66	
State death tax deduction	<u>11,973,461.65</u>	<u>30,817,526.32</u>
Taxable estate		\$69,182,473.68
Plus: Adjusted taxable gifts		<u>20,000,000.00</u>
Taxable interests		\$89,182,473.68
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>
Remainder		\$88,182,473.68
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$35,272,989.47
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>
Tax on taxable interests		\$35,618,789.47
Minus: Total gift tax paid or payable		<u>5,828,000.00</u>
Gross estate tax		\$29,790,789.47
Minus: Allowable applicable credit amount		<u>4,577,800.00</u>
Net estate tax		<u>\$25,212,989.47</u>

## Part IV - Gift Tax

When a donor makes a gift to a donee subject to the condition that the donee pay the gift tax, the value of the gift is reduced by the amount of the gift tax paid by the donee. This situation creates an interrelated computation resulting in a net gift computation. The net gift computation may be solved either through the Trial and Substitution method or through the Algebraic method; however, as shown below, the Trial and Substitution method requires multiple trials to solve the problem.

The Algebraic method uses the following formula to compute the gift tax in a net gift situation:

$$\frac{\text{Tentative Tax}}{(1 \text{ plus Rate of Tax})} = \text{Gift tax}$$

The examples shown below illustrate the use of both Trial and Substitution method and the Algebraic method to determine the gift tax in a net gift situation.

**Income Tax:** A donor who makes a gift subject to the condition that the donee pay the gift tax may realize taxable income for income tax purposes. If the gift taxes paid by the donee exceed the donor's adjusted basis in the transferred property, the excess is taxable income to the donor.

**State law:** State gift tax law may affect your net gift computation for Federal gift tax purposes. Be sure to check any state gift tax law that may affect your net gift computation.

## Gift Tax Example 1 – Trial and Substitution Method

- Donor made a gift of \$50,000,000.00.
- Gift is not split with spouse.
- No prior period gifts were made by the donor.
- No state gift tax is imposed.

In 2020, the donor made a gift with a fair market value of \$50,000,000.00 and the donee agreed to pay the gift tax on the transfer. On the gift tax return, the donor claimed the \$15,000.00 annual exclusion. The donor made no prior period taxable gifts and no state gift tax was imposed on the transfer. This example uses the conventional option to determine the gift tax. Trials 1 through 4 and 22 through 25 are shown below.

### Trial 1

#### 1) Analysis of gifts of donor

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>0.00</u>
Trial total value of gifts	\$50,000,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$49,985,000.00</u>

#### 2) Computation of trial Federal gift tax

Trial taxable gifts	\$49,985,000.00
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$48,985,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$19,594,000.00
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$19,939,800.00
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$15,362,000.00</u>

### Trial 2

#### 1) Analysis of gifts of donor

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>15,362,000.00</u>
Trial total value of gifts	\$34,638,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$34,623,000.00</u>

#### 2) Computation of trial Federal gift tax

Trial taxable gifts	\$34,623,000.00
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$33,623,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$13,449,200.00
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$13,795,000.00
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$9,217,200.00</u>

### Trial 3

#### 1) Analysis of gifts of donor

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>9,217,200.00</u>
Trial total value of gifts	\$40,782,800.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$40,767,800.00</u>

#### 2) Computation of trial Federal gift tax

Trial taxable gifts	\$40,767,800.00
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$39,767,800.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,907,120.00
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$16,252,920.00
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$11,675,120.00</u>

### Trial 4

#### 1) Analysis of gifts of donor

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>11,675,120.00</u>
Trial total value of gifts	\$38,324,880.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$38,309,880.00</u>

#### 2) Computation of trial Federal gift tax

Trial taxable gifts	\$38,309,880.00
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$37,309,880.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,923,952.00
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$15,269,752.00
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,691,952.00</u>

**Trial 22****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.19</u>
Trial total value of gifts	\$39,027,142.81
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.81</u>

**2) Computation of trial Federal gift tax**

Trial taxable gifts	\$39,012,142.81
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$38,012,142.81
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,204,857.12
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$15,550,657.12
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.12</u>

**Trial 24****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.15</u>
Trial total value of gifts	\$39,027,142.85
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.85</u>

**2) Computation of trial Federal gift tax**

Trial taxable gifts	\$39,012,142.85
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$38,012,142.85
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,204,857.14
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$15,550,657.14
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.14</u>

**Trial 23****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.12</u>
Trial total value of gifts	\$39,027,142.88
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.88</u>

**2) Computation of trial Federal gift tax**

Trial taxable gifts	\$39,012,142.88
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$38,012,142.88
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,204,857.15
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$15,550,657.15
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.15</u>

**Trial 25****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.14</u>
Trial total value of gifts	\$39,027,142.86
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.86</u>

**2) Computation of trial Federal gift tax**

Trial taxable gifts	\$39,012,142.86
Minus: Bracket from Table A, Column A	<u>1,000,000.00</u>
Remainder	\$38,012,142.86
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,204,857.14
Plus: Tax on bracket from Table A, Column C	<u>345,800.00</u>
Trial gross gift tax	\$15,550,657.14
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.14</u>

**Gift Tax Example 2 – Algebraic Method**

- Donor made a gift of \$50,000,000.00.
- Gift is not split with spouse.
- No prior period gifts were made by the donor.
- No state gift tax is imposed.

The facts are the same as in Gift Tax Example 1 and the example uses the Algebraic method to compute the gift tax. In the example below, the letter “ T ” stands for the Federal gift tax.

**1) Analysis of gifts of donor**

Gross value of gifts of donor		\$50,000,000.00
Minus: Gift tax payable by donee	I	
Total value of gifts		\$50,000,000.00 - T
Minus: Annual exclusion		<u>15,000.00</u>
Taxable gifts		<u>\$49,985,000.00 - T</u>

**2) Computation of Federal gift tax**

Taxable gifts		\$49,985,000.00 - T
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>
Remainder		\$48,985,000.00 - T
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$19,594,000.00 - T
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>
Gross gift tax		\$19,939,800.00 - 0.40T
Minus: Applicable credit		<u>4,577,800.00</u>
Gift tax		<u>\$15,362,000.00 - 0.40T</u>

**3) Solve for T**

$$\begin{aligned}
 T &= \$15,362,000.00 - 0.40T \\
 T + 0.40T &= \$15,362,000.00 \\
 1.40T &= \$15,362,000.00 \\
 \underline{T} &= \underline{\$15,362,000.00} && \underline{\$10,972,857.14} \\
 &1.40
 \end{aligned}$$

**Proof****1) Analysis of gifts of donor**

Gross value of gifts of donor		\$50,000,000.00
Minus: Gift tax payable by donee		<u>10,972,857.14</u>
Total value of gifts		\$39,027,142.86
Minus: Annual exclusion		<u>15,000.00</u>
Taxable gifts		<u>\$39,012,142.86</u>

**2) Computation of Federal gift tax**

Taxable gifts		\$39,012,142.86
Minus: Bracket from Table A, Column A		<u>1,000,000.00</u>
Remainder		\$38,012,142.86
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$15,204,857.14
Plus: Tax on bracket from Table A, Column C		<u>345,800.00</u>
Gross gift tax		\$15,550,657.14
Minus: Applicable credit		<u>4,577,800.00</u>
Gift tax		<u>\$10,972,857.14</u>

### **Gift Tax Example 3 - Trial and Substitution Method**

- **Donor made a gift of \$50,000,000.00.**
- **Spouse made a gift of \$50,000,000.00.**
- **Donor and spouse elected to split gifts.**
- **No prior period taxable gifts.**
- **No state gift tax is imposed.**

In 2020, the donor made a gift with a fair market value of \$50,000,000.00 and the donor's spouse also made a gift of \$50,000,000.00. The donor and their spouse agreed to split the gifts. Additionally, the donee agreed to pay the gift tax on the transfers. Under IRC 2513, the gifts are considered as being made one-half by the donor and one-half by the donor's spouse. On the gift tax returns, each spouse claimed an annual exclusion of \$15,000.00. Neither the donor nor the donor's spouse made prior period taxable gifts. No state gift tax was imposed on the transfer. This example uses the alternate option to determine the gift tax. Trials 1 through 4 and 22 through 25 are shown below.

**Trial 1****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>0.00</u>
Donor's trial net transfer	\$50,000,000.00
Minus: One-half to be reported by spouse	<u>25,000,000.00</u>
Remainder	\$25,000,000.00
Plus: Spouse's gifts to be reported by donor	<u>25,000,000.00</u>
Trial total value of gifts	\$50,000,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$49,985,000.00</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$49,985,000.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$49,985,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$19,994,000.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$19,939,800.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$19,939,800.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$15,362,000.00</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>0.00</u>
Spouse's trial net transfer	\$50,000,000.00
Minus: One-half to be reported by donor	<u>25,000,000.00</u>
Remainder	\$25,000,000.00
Plus: Donor's gifts to be reported by spouse	<u>25,000,000.00</u>
Trial total value of gifts	\$50,000,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$49,985,000.00</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$49,985,000.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$49,985,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$19,994,000.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$19,939,800.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$19,939,800.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$15,362,000.00</u>

**Trial 2****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>15,362,000.00</u>
Donor's trial net transfer	\$34,638,000.00
Minus: One-half to be reported by spouse	<u>17,319,000.00</u>
Remainder	\$17,319,000.00
Plus: Spouse's gifts to be reported by donor	<u>17,319,000.00</u>
Trial total value of gifts	\$34,638,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$34,623,000.00</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$34,623,000.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$34,623,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$13,849,200.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$13,795,000.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$13,795,000.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$9,217,200.00</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>15,362,000.00</u>
Spouse's trial net transfer	\$34,638,000.00
Minus: One-half to be reported by donor	<u>17,319,000.00</u>
Remainder	\$17,319,000.00
Plus: Donor's gifts to be reported by spouse	<u>17,319,000.00</u>
Trial total value of gifts	\$34,638,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$34,623,000.00</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$34,623,000.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$34,623,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$13,849,200.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$13,795,000.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$13,795,000.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$9,217,200.00</u>

**Trial 3****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>9,217,200.00</u>
Donor's trial net transfer	\$40,782,800.00
Minus: One-half to be reported by spouse	<u>20,391,400.00</u>
Remainder	\$20,391,400.00
Plus: Spouse's gifts to be reported by donor	<u>20,391,400.00</u>
Trial total value of gifts	\$40,782,800.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$40,767,800.00</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$40,767,800.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$40,767,800.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$16,307,120.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$16,252,920.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$16,252,920.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$11,675,120.00</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>9,217,200.00</u>
Spouse's trial net transfer	\$40,782,800.00
Minus: One-half to be reported by donor	<u>20,391,400.00</u>
Remainder	\$20,391,400.00
Plus: Donor's gifts to be reported by spouse	<u>20,391,400.00</u>
Trial total value of gifts	\$40,782,800.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$40,767,800.00</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$40,767,800.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$40,767,800.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$16,307,120.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$16,252,920.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$16,252,920.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$11,675,120.00</u>

**Trial 4****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>11,675,120.00</u>
Donor's trial net transfer	\$38,324,880.00
Minus: One-half to be reported by spouse	<u>19,162,440.00</u>
Remainder	\$19,162,440.00
Plus: Spouse's gifts to be reported by donor	<u>19,162,440.00</u>
Trial total value of gifts	\$38,324,880.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$38,309,880.00</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$38,309,880.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$38,309,880.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,323,952.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,269,752.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,269,752.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,691,952.00</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>11,675,120.00</u>
Spouse's trial net transfer	\$38,324,880.00
Minus: One-half to be reported by donor	<u>19,162,440.00</u>
Remainder	\$19,162,440.00
Plus: Donor's gifts to be reported by spouse	<u>19,162,440.00</u>
Trial total value of gifts	\$38,324,880.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$38,309,880.00</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$38,309,880.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$38,309,880.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,323,952.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,269,752.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,269,752.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,691,952.00</u>

**Trial 22****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.19</u>
Donor's trial net transfer	\$39,027,142.81
Minus: One-half to be reported by spouse	<u>19,513,571.40</u>
Remainder	\$19,513,571.40
Plus: Spouse's gifts to be reported by donor	<u>19,513,571.40</u>
Trial total value of gifts	\$39,027,142.81
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.81</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.81
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.81
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.12
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.12
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.12
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.12</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.19</u>
Spouse's trial net transfer	\$39,027,142.81
Minus: One-half to be reported by donor	<u>19,513,571.40</u>
Remainder	\$19,513,571.40
Plus: Donor's gifts to be reported by spouse	<u>19,513,571.40</u>
Trial total value of gifts	\$39,027,142.81
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.81</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.81
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.81
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.12
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.12
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.12
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.12</u>

**Trial 23****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.12</u>
Donor's trial net transfer	\$39,027,142.88
Minus: One-half to be reported by spouse	<u>19,513,571.44</u>
Remainder	\$19,513,571.44
Plus: Spouse's gifts to be reported by donor	<u>19,513,571.44</u>
Trial total value of gifts	\$39,027,142.88
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.88</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.88
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.88
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.15
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.15
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.15
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.15</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.12</u>
Spouse's trial net transfer	\$39,027,142.88
Minus: One-half to be reported by donor	<u>19,513,571.44</u>
Remainder	\$19,513,571.44
Plus: Donor's gifts to be reported by spouse	<u>19,513,571.44</u>
Trial total value of gifts	\$39,027,142.88
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.88</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.88
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.88
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.15
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.15
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.15
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.15</u>

**Trial 24****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.15</u>
Donor's trial net transfer	\$39,027,142.85
Minus: One-half to be reported by spouse	<u>19,513,571.42</u>
Remainder	\$19,513,571.42
Plus: Spouse's gifts to be reported by donor	<u>19,513,571.42</u>
Trial total value of gifts	\$39,027,142.85
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.85</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.85
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.85
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.14
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.14
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.14
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.14</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.15</u>
Spouse's trial net transfer	\$39,027,142.85
Minus: One-half to be reported by donor	<u>19,513,571.42</u>
Remainder	\$19,513,571.42
Plus: Donor's gifts to be reported by spouse	<u>19,513,571.42</u>
Trial total value of gifts	\$39,027,142.85
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.85</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.85
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.85
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.14
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.14
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.14
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.14</u>

**Trial 25****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.14</u>
Donor's trial net transfer	\$39,027,142.86
Minus: One-half to be reported by spouse	<u>19,513,571.43</u>
Remainder	\$19,513,571.43
Plus: Spouse's gifts to be reported by donor	<u>19,513,571.43</u>
Trial total value of gifts	\$39,027,142.86
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.86</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.86
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.86
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.14
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.14
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.14
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.14</u>

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,972,857.14</u>
Spouse's trial net transfer	\$39,027,142.86
Minus: One-half to be reported by donor	<u>19,513,571.43</u>
Remainder	\$19,513,571.43
Plus: Donor's gifts to be reported by spouse	<u>19,513,571.43</u>
Trial total value of gifts	\$39,027,142.86
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,012,142.86</u>

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$39,012,142.86
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,012,142.86
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.14
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,550,657.14
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,550,657.14
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	<u>\$10,972,857.14</u>

#### 5) Total gift tax

Donor's gift tax	\$10,972,857.14
Plus spouse's gift tax	<u>\$10,972,857.14</u>
Total gift tax	<u>\$21,945,714.28</u>

#### Gift Tax Example 4 – Algebraic Method

- Donor made a gift of \$100,000,000.00.
- Spouse did not make any gifts.
- Donor and spouse elected to split gifts
- No prior period taxable gifts.
- No state gift tax is imposed.

In 2020, the donor made a gift with a fair market value of \$100,000,000.00. The donor and their spouse agreed to split the gift. Additionally, the donee agreed to pay the gift tax on the transfers. Under IRC 2513, the gift is considered as being made one-half by the donor and one-half by the donor's spouse. On the gift tax returns, each spouse claimed an annual exclusion of \$15,000.00. Neither the donor nor the donor's spouse made prior period taxable gifts. No state gift tax was imposed on the transfer. This example uses the Algebraic method to determine the gift tax. In the example below, the letter " T " stands for the Federal gift tax, and that figure is rounded down to the nearest two decimal places to match the rounding in the proof.

**1) Analysis of gifts of donor**

Gross value of gifts of donor		\$100,000,000.00
Minus: Gift tax payable by donee	I	
Donor's net transfer		\$100,000,000.00 - T
Minus: One-half to be reported by spouse		<u>50,000,000.00 - 0.50T</u>
One-half to be reported by donor		<u>\$50,000,000.00 - 0.50T</u>

**2) Computation of donor's Federal gift tax**

Total value of gifts of donor		\$50,000,000.00 - 0.50T
Minus: Annual exclusion		<u>15,000.00</u>
Taxable gifts		\$49,985,000.00 - T
Plus: Taxable gifts for prior periods		<u>0.00</u>
Total taxable gifts		\$49,985,000.00 - T
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$19,994,000.00 - 0.20T
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Gift tax on total taxable gifts		\$19,939,800.00 - 0.20T
Minus: Tax on taxable gifts for prior periods		<u>0.00</u>
Gross gift tax		\$19,939,800.00 - 0.20T
Applicable credit amount	\$4,577,800.00	
Minus: Applicable credit amount used in prior periods.	<u>0.00</u>	
Minus: Applicable credit		<u>4,577,800.00</u>
Gift tax		<u>\$15,362,000.00 - 0.20T</u>

**3) Computation of spouse's Federal gift tax**

Total value of gifts of spouse		\$50,000,000.00 - 0.50T
Minus: Annual exclusion		<u>15,000.00</u>
Taxable gifts		\$49,985,000.00 - 0.50T
Plus: Taxable gifts for prior periods		<u>0.00</u>
Total taxable gift		\$49,985,000.00 - 0.50T
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$19,994,000.00 - 0.20T
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Gift tax on total taxable gifts		\$19,939,800.00 - 0.20T
Minus: Tax on taxable gifts for prior periods		<u>0.00</u>
Gross gift tax		\$19,939,800.00 - 0.20T
Applicable credit amount	\$4,577,800.00	
Minus: Applicable credit amount used in prior periods.	<u>0.00</u>	
Minus: Applicable credit		<u>4,577,800.00</u>
Gift tax		<u>\$15,362,000.00 - 0.20T</u>

**4) Computation of total Federal gift tax**

Donor's gift tax		\$15,362,000.00 - 0.20T
Plus: Spouse's gift tax		<u>15,362,000.00 - 0.20T</u>
Total gift tax		<u>\$30,724,000.00 - 0.40T</u>

**5) Solve for T**

$$\begin{aligned}
 T &= \$30,724,000.00 - 0.40T \\
 T + 0.40T &= \$30,724,000.00 \\
 1.40T &= \$30,724,000.00 \\
 \underline{T} &= \underline{\$30,724,000.00} &= & \underline{\$21,945,714.29}
 \end{aligned}$$

**Proof****1) Analysis of gifts**

Gross value of gifts of donor	\$100,000,000.00
Minus: Gift tax payable by donee	<u>21,945,714.29</u>
Donor's net transfer	\$78,054,285.71
Minus: One-half to be reported by spouse	<u>39,027,142.86</u>
One-half to be reported by donor	<u>\$39,027,142.86</u>

**2) Computation of donor's Federal gift tax**

Total value of gifts of donor	\$39,027,142.86
Minus: Annual exclusion	<u>15,000.00</u>
Taxable gifts	\$39,012,142.86
Plus: Taxable gifts for prior periods	<u>0.00</u>
Total taxable gifts	\$39,012,142.86
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.14
Minus: Subtractive term from Table A, Column E	54,200.00
Gift tax on total taxable gifts	\$15,550,657.14
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Gross gift tax	\$15,550,657.14
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Gift tax	<u>\$10,972,857.14</u>

**3) Computation of spouse's Federal gift tax**

Total value of gifts of spouse	\$39,027,142.86
Minus: Annual exclusion	<u>15,000.00</u>
Taxable gift	\$39,012,142.86
Plus: Taxable gifts for prior periods	<u>0.00</u>
Total taxable gift	\$39,012,142.86
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,604,857.14
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on total taxable gifts	\$15,550,657.14
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Gross gift tax	\$15,550,657.14
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Gift tax	<u>\$10,972,857.14</u>

**4) Computation of total Federal gift tax**

Donor's gift tax	\$10,972,857.14
Plus: Spouse's gift tax	<u>10,972,857.14</u>
Total gift tax	<u>\$21,945,714.28</u>

## **Gift Example 5 - Trial and Substitution Method**

- **Donor made a gift of \$50,000,000.00.**
- **Spouse made a gift of \$50,000,000.00.**
- **The spouses elected to split gifts.**
- **Donor's spouse had made prior period taxable gifts.**
- **Donor's spouse had used applicable credit against gift tax in prior periods.**
- **No state gift tax is imposed.**

In 2020, the donor made a gift with a fair market value of \$50,000,000.00 and the donor's spouse also made a gift of \$50,000,000.00. The donor and their spouse agreed to split the gift. Additionally, the donee agreed to pay the gift tax on the transfers. Under IRC 2513, the gift is considered as being made one-half by the donor and one-half by the donor's spouse. On the gift tax returns, each spouse claimed an annual exclusion of \$15,000.00. The donor's spouse had prior period taxable gifts equal to \$20,000,000.00 and had used \$4,505,800.00 in applicable credit for against gift tax for prior periods. No state gift tax was imposed on the transfer. This example uses the alternate option to determine the gift tax. Trials 1 through 4 and 22 through 25 are shown below.

**Trial 1****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>0.00</u>
Donor's trial net transfer	\$50,000,000.00
Minus: One-half to be reported by spouse	<u>25,000,000.00</u>
Remainder	\$25,000,000.00
Plus: Spouse's gifts to be reported by donor	<u>25,000,000.00</u>
Trial total value of gifts	\$50,000,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$49,985,000.00

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$49,985,000.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$49,985,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$19,994,000.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$19,939,800.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$19,939,800.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$15,362,000.00

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>0.00</u>
Spouse's trial net transfer	\$50,000,000.00
Minus: One-half to be reported by donor	<u>25,000,000.00</u>
Remainder	\$25,000,000.00
Plus: Donor's gifts to be reported by spouse	<u>25,000,000.00</u>
Trial total value of gifts	\$50,000,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$49,985,000.00

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$49,985,000.00
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$69,985,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$27,994,000.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$27,939,800.00
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$19,994,000.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$19,922,000.00</u>

**Trial 2****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>15,362,000.00</u>
Donor's trial net transfer	\$34,638,000.00
Minus: One-half to be reported by spouse	<u>17,319,000.00</u>
Remainder	\$17,319,000.00
Plus: Spouse's gifts to be reported by donor	<u>15,039,000.00</u>
Trial total value of gifts	\$32,358,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$32,343,000.00

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$32,343,000.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$32,343,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$12,937,200.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$12,883,000.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$12,883,000.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$8,305,200.00

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>19,922,000.00</u>
Spouse's trial net transfer	\$30,078,000.00
Minus: One-half to be reported by donor	<u>15,039,000.00</u>
Remainder	\$15,039,000.00
Plus: Donor's gifts to be reported by spouse	<u>17,319,000.00</u>
Trial total value of gifts	\$32,358,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$32,343,000.00

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$32,343,000.00
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$52,343,000.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$20,937,200.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$20,883,000.00
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$12,937,200.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$12,865,200.00</u>

**Trial 3****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>8,305,200.00</u>
Donor's trial net transfer	\$41,694,800.00
Minus: One-half to be reported by spouse	<u>20,847,400.00</u>
Remainder	\$20,847,400.00
Plus: Spouse's gifts to be reported by donor	<u>18,567,400.00</u>
Trial total value of gifts	\$39,414,800.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$39,399,800.00</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$39,399,800.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$39,399,800.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$15,759,920.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$15,705,720.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$15,705,720.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$11,127,920.00

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>12,865,200.00</u>
Spouse's trial net transfer	\$37,134,800.00
Minus: One-half to be reported by donor	<u>18,567,400.00</u>
Remainder	\$18,567,400.00
Plus: Donor's gifts to be reported by spouse	<u>20,847,400.00</u>
Trial total value of gifts	\$39,414,800.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$39,399,800.00

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$39,399,800.00
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$59,399,800.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$23,759,920.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$23,705,720.00
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$15,759,920.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$15,687,920.00</u>

**Trial 4****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>15,362,000.00</u>
Donor's trial net transfer	\$34,638,000.00
Minus: One-half to be reported by spouse	<u>17,319,000.00</u>
Remainder	\$17,319,000.00
Plus: Spouse's gifts to be reported by donor	<u>15,039,000.00</u>
Trial total value of gifts	\$32,358,000.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	<u>\$32,343,000.00</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$36,577,080.00
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$36,577,080.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,630,832.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$14,576,632.00
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$14,576,632.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$9,998,832.00

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>15,687,920.00</u>
Spouse's trial net transfer	\$34,312,080.00
Minus: One-half to be reported by donor	<u>17,156,040.00</u>
Remainder	\$17,156,040.00
Plus: Donor's gifts to be reported by spouse	<u>19,436,040.00</u>
Trial total value of gifts	\$36,592,080.00
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$36,577,080.00

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$36,577,080.00
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$56,577,080.00
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$22,630,832.00
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$22,576,632.00
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$14,630,832.00
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$14,558,832.00</u>

**Trial 22****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,321,428.63</u>
Donor's trial net transfer	\$39,678,571.37
Minus: One-half to be reported by spouse	<u>19,839,285.69</u>
Remainder	\$19,839,285.69
Plus: Spouse's gifts to be reported by donor	<u>17,559,285.69</u>
Trial total value of gifts	\$37,398,571.37
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.37

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$37,383,571.37
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$37,383,571.37
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,953,428.55
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$14,899,228.55
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$14,899,228.55
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$10,321,428.55

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>14,881,428.63</u>
Spouse's trial net transfer	\$35,118,571.37
Minus: One-half to be reported by donor	<u>17,559,285.69</u>
Remainder	\$17,559,285.69
Plus: Donor's gifts to be reported by spouse	<u>19,839,285.69</u>
Trial total value of gifts	\$37,398,571.37
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.37

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$37,383,571.37
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$57,383,571.37
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$22,953,428.55
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$22,899,228.55
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$14,953,428.55
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$14,881,428.55</u>

Estate and Gift Tax Interrelated Computations

**Trial 23****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,321,428.55</u>
Donor's trial net transfer	\$39,678,571.45
Minus: One-half to be reported by spouse	<u>19,839,285.73</u>
Remainder	\$19,839,285.73
Plus: Spouse's gifts to be reported by donor	<u>17,559,285.73</u>
Trial total value of gifts	\$37,398,571.45
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.45

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	\$37,383,571.45
Plus: Taxable gifts for prior periods	<u>0.00</u>
Trial total taxable gifts	\$37,383,571.45
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,953,428.58
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$14,899,228.58
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$14,899,228.58
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$10,321,428.58

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>14,881,428.55</u>
Spouse's trial net transfer	<u>\$35,118,571.45</u>
Minus: One-half to be reported by donor	<u>17,559,285.73</u>
Remainder	\$17,559,285.73
Plus: Donor's gifts to be reported by spouse	<u>19,839,285.73</u>
Trial total value of gifts	\$37,398,571.45
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.45

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$37,383,571.45
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$57,383,571.45
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$22,953,428.58
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$22,899,228.58
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$14,953,428.58
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$14,881,428.58</u>

**Trial 24****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,321,428.58</u>
Donor's trial net transfer	\$39,678,571.42
Minus: One-half to be reported by spouse	<u>19,839,285.71</u>
Remainder	\$19,839,285.71
Plus: Spouse's gifts to be reported by donor	<u>17,559,285.71</u>
Trial total value of gifts	\$37,398,571.42
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.42

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	<u>\$37,383,571.42</u>
Plus: Taxable gifts for prior periods	0.00
Trial total taxable gifts	\$37,383,571.42
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,953,428.57
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$14,899,228.57
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$14,899,228.57
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$15,362,000.00

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>14,881,428.58</u>
Spouse's trial net transfer	\$35,118,571.42
Minus: One-half to be reported by donor	<u>17,559,285.71</u>
Remainder	\$17,559,285.71
Plus: Donor's gifts to be reported by spouse	<u>19,839,285.71</u>
Trial total value of gifts	\$37,398,571.42
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.42

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$37,383,571.42
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$57,383,571.42
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$22,953,428.57
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$22,899,228.57
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$14,953,428.57
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$14,881,428.57</u>

**Trial 25****1) Analysis of gifts of donor**

Gross value of gifts of donor	\$50,000,000.00
Minus: Gift tax payable by donee	<u>10,321,428.57</u>
Donor's trial net transfer	\$39,678,571.43
Minus: One-half to be reported by spouse	<u>19,839,285.72</u>
Remainder	\$19,839,285.72
Plus: Spouse's gifts to be reported by donor	<u>17,559,285.72</u>
Trial total value of gifts	\$37,398,571.43
Minus: Annual exclusion	15,000.00
Trial taxable gifts	<u>\$37,383,571.43</u>

**2) Computation of donor's trial Federal gift tax**

Trial taxable gifts	<u>\$37,383,571.43</u>
Plus: Taxable gifts for prior periods	0.00
Trial total taxable gifts	\$37,383,571.43
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,953,428.57
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$14,899,228.57
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Trial gross gift tax	\$14,899,228.57
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Trial gift tax	\$10,321,428.57

**3) Analysis of gifts of spouse**

Gross value of gifts of spouse	\$50,000,000.00
Minus: Gift tax payable by donee	<u>14,881,428.57</u>
Spouse's trial net transfer	\$35,118,571.43
Minus: One-half to be reported by donor	<u>17,559,285.72</u>
Remainder	\$17,559,285.72
Plus: Donor's gifts to be reported by spouse	<u>19,839,285.72</u>
Trial total value of gifts	\$37,398,571.43
Minus: Annual exclusion	<u>15,000.00</u>
Trial taxable gifts	\$37,383,571.43

**4) Computation of spouse's trial Federal gift tax**

Trial taxable gifts	\$37,383,571.43
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Trial total taxable gifts	\$57,383,571.43
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$22,953,428.57
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on trial total taxable gifts	\$22,899,228.57
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Trial gross gift tax	\$14,953,428.57
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Trial gift tax	<u>\$14,881,428.57</u>

## 5) Total Federal gift tax

Donor's gift tax	\$10,321,428.57
Plus: Spouse's gift tax	<u>14,881,428.57</u>
Total gift tax	\$25,202,857.14

## Gift Tax Example 6 – Algebraic Method.

- Donor made a gift of \$100,000,000.00.
- Donor's spouse did not make any gifts.
- The spouses elected to split gifts.
- Donor's spouse had made prior period taxable gifts.
- Donor's spouse had used applicable credit against gift tax in prior periods.
- No state gift tax is imposed.

In 2020, the donor made a gift with a fair market value of \$100,000,000.00. The donor and their spouse agreed to split the gift. Additionally, the donee agreed to pay the gift tax on the transfer. Under IRC 2513, the gift is considered as made one-half by the donor and one-half by the donor's spouse. On the gift tax returns, each spouse claimed an annual exclusion of \$15,000.00. The donor's spouse had prior period taxable gifts equal to \$20,000,000.00 and had used \$4,505,800.00 in applicable credit for against gift tax for prior periods. No state gift tax was imposed on the transfer. This example uses the Algebraic method to determine the gift tax. In the example below, the letter " T " stands for the Federal gift tax.

### 1) Analysis of gifts of donor

Gross value of gifts of donor		\$100,000,000.00
Minus: Gift tax payable by donee	I	
Donor's net transfer		\$100,000,000.00 - T
Minus: One-half to be reported by spouse		50,000,000.00 - 0.50T
Plus: Spouse's gifts to be reported by donor		<u>0.00</u>
Total value of gifts of donor		\$50,000,000.00 - 0.50T

### 2) Computation of donor's Federal gift tax

Total value of gifts of donor		\$50,000,000.00 - 0.50T
Minus: Annual exclusion		<u>15,000.00</u>
Taxable gifts		\$49,985,000.00 - 0.50T
Plus: Taxable gifts for prior periods		<u>0.00</u>
Total taxable gifts		\$49,985,000.00 - 0.50T
Times: Marginal rate from Table A, Column D		x <u>0.40</u>
Product		\$19,994,000.00 - 0.20T
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Gift tax on total taxable gifts		\$19,939,800.00 - 0.20T
Minus: Tax on taxable gifts for prior periods		<u>0.00</u>
Gross gift tax		\$19,939,800.00 - 0.20T
Applicable credit amount	\$4,577,800.00	
Minus: Applicable credit amount used in prior periods	<u>0.00</u>	
Minus: Applicable credit		<u>4,577,800.00</u>
Gift tax		\$15,362,000.00 - 0.20T

### 3) Analysis of gifts of spouse

Gross value of gifts of spouse		\$0.00
Minus: One-half to be reported by donor		<u>0.00</u>
Plus: Donor's gifts to be reported by spouse		<u>50,000,000.00 - 0.50T</u>
Total value of gifts of spouse		<u>\$50,000,000.00 - 0.50T</u>

**4) Computation of spouse's Federal gift tax**

Total value of gifts of spouse		\$50,000,000.00 - 0.50T
Minus: Annual exclusion		<u>15,000.00</u>
Taxable gifts		\$49,985,000.00 - 0.50T
Plus: Taxable gifts for prior periods		<u>20,000,000.00</u>
Total taxable gifts		\$69,985,000.00 - 0.50T
Times: Marginal rate from Table A, Column D		<u>x 0.40</u>
Product		\$27,994,000.00 - 0.20T
Minus: Subtractive term from Table A, Column E		<u>54,200.00</u>
Gift tax on total taxable gifts		\$27,939,800.00 - 0.20T
Minus: Tax on taxable gifts for prior periods		<u>7,945,800.00</u>
Gross gift tax		\$19,994,000.00 - 0.20T
Applicable credit amount	\$4,577,800.00	
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>	
Minus: Applicable credit		<u>72,000.00</u>
Gift tax		<u>\$19,922,000.00 - 0.20T</u>

**5) Computation of total Federal gift tax**

Donor's Federal gift tax		\$15,362,000.00 - 0.20T
Plus: Spouse's Federal gift tax		<u>19,922,000.00 - 0.20T</u>
Total Federal gift tax		\$35,284,000.00 - 0.40T

**6) Solve for T**

$$\begin{aligned}
 T &= \$35,284,000.00 - 0.40T \\
 T + 0.40T &= \$35,284,000.00 \\
 1.40T &= \$35,284,000.00 \\
 T &= \frac{\$35,284,000.00}{1.4} = \underline{\underline{\$25,202,857.14}}
 \end{aligned}$$

**Proof****1) Analysis of combined gifts**

Gross value of gifts of donor	\$100,000,000.00
Minus: Gift tax payable by donee	<u>25,202,857.14</u>
Donor's net transfer	\$74,797,142.86
Allocation: One-half to be reported by donor	<u>37,398,571.43</u>
Allocation: One-half to be reported by donor's spouse	37,398,571.43

**2) Computation of donor's Federal gift tax**

Total value of gifts of donor	\$37,398,571.43
Minus: Annual exclusion	<u>15,000.00</u>
Taxable gifts	\$37,383,571.43
Plus: Taxable gifts for prior periods	<u>0.00</u>
Total taxable gifts	\$37,398,571.43
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$14,953,428.57
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on total taxable gifts	14,899,228.57
Minus: Tax on taxable gifts for prior periods	<u>0.00</u>
Gross gift tax	<u>\$14,899,228.57</u>
Applicable credit amount	<u>\$4,577,800.00</u>
Minus: Applicable credit amount used in prior periods	<u>0.00</u>
Minus: Applicable credit	<u>4,577,800.00</u>
Gift tax	\$10,321,428.57

**3) Computation of spouse's Federal gift tax**

Total value of gifts of spouse	\$37,398,571.43
Minus: Annual exclusion	<u>15,000.00</u>
Taxable gifts	\$37,383,571.43
Plus: Taxable gifts for prior periods	<u>20,000,000.00</u>
Total taxable gifts	\$57,383,571.43
Times: Marginal rate from Table A, Column D	<u>x 0.40</u>
Product	\$22,953,428.57
Minus: Subtractive term from Table A, Column E	<u>54,200.00</u>
Gift tax on total taxable gifts	\$22,899,228.57
Minus: Tax on taxable gifts for prior periods	<u>7,945,800.00</u>
Gross gift tax	\$14,953,428.57
Applicable credit amount	\$4,577,800.00
Minus: Applicable credit amount used in prior periods	<u>4,505,800.00</u>
Minus: Applicable credit	<u>72,000.00</u>
Gift tax	\$14,881,428.57

**4) Computation of total Federal gift tax**

Donor's gift tax	\$10,321,428.57
Plus: Spouse's gift tax	<u>14,881,428.57</u>
Total gift tax	<u>\$25,202,857.14</u>